

Secure Retirement

For Iowa's Public Employees



Working Today for Your Tomorrow

Presented to the Public Retirement Systems Committee

December 11, 2013

Donna M. Mueller, CEO
Karl C. Koch, CIO
Patrice A. Beckham, Actuary

Dennis Young, Investment Board Chair
Len Cockman, BAC Chair
Bradley Hudson, BAC Vice Chair

Our Mission & Vision



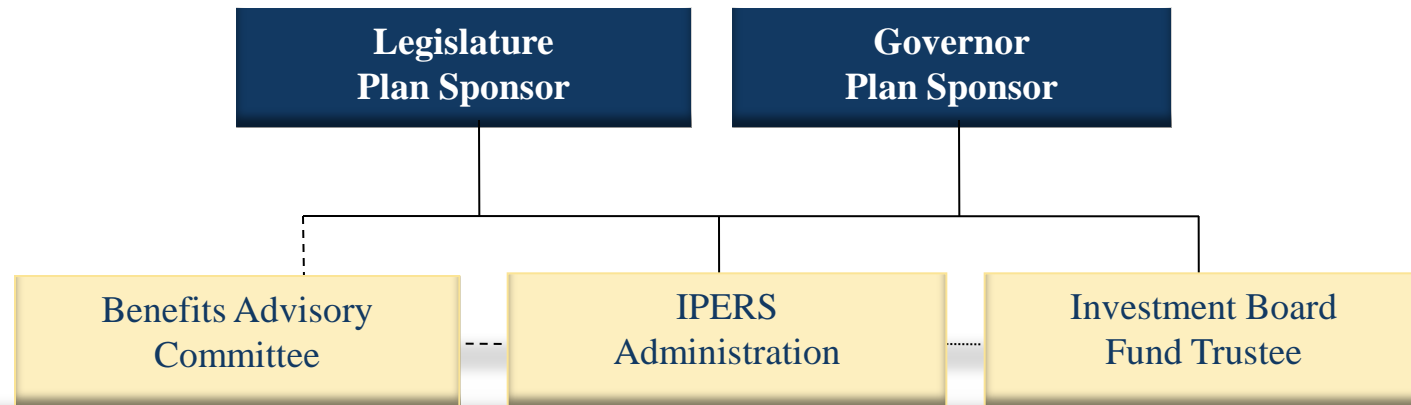
MISSION

Administer a cost-efficient retirement plan that provides lifetime pension payments to public employees and serves to attract and retain a quality workforce.

VISION

IPERS is a sustainable and affordable retirement plan that is valued by all Iowans and provides members with secure income, supports self-sufficiency in retirement, and contributes to local economies.

Governance



What is the role of the Plan Sponsor?

Creates plan

Determines participation

Establishes funding

Determines benefits

Monitors performance against plan goals

2013 Actuarial Valuation



Presented by

Patrice A. Beckham, FSA, EA, FCA, MAAA

Cavanaugh MacDonald Consulting



- Independent actuarial consulting firm
- Practicing entirely in the public sector
- Lead actuarial consultant to IPERS for many years



Cavanaugh Macdonald
CONSULTING, LLC

The experience and dedication you deserve



Presentation to the Iowa Public Retirement Systems Committee

**Presented by:
Patrice A. Beckham, FSA**

December 11, 2013



- Measure assets and liabilities
- Determine actuarial contribution rates which are used to set the required contribution rate
 - 6/30/13 valuation used to set the FY 2015 contribution rates
- Analyze experience (actual vs. expected) in last year
- Disclosure information for Financial Report

Key Measurements

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Actuarial Liability (\$M)	\$ 30,498	\$ 29,446
Actuarial Assets (\$M)	<u>24,711</u>	<u>23,530</u>
Unfunded Actuarial Liability	\$ 5,787	\$ 5,916
Funded Ratio – AVA	81.0%	79.9%
Funded Ratio – MVA	81.2%	78.2%
Actuarial Contribution Rate*	14.60%	14.88%
Statutory Contribution Rate*	<u>(14.88%)</u>	<u>(14.88%)</u>
Shortfall/(Margin)*	(0.28%)	0.00%
* Regular members only		

Actuarial Value of Assets

- Market value not used directly in valuation
- Asset valuation method used to smooth the effect of market fluctuations
- Actuarial value is expected value(based on 7.5% assumption) plus 25% of difference between actual and expected values

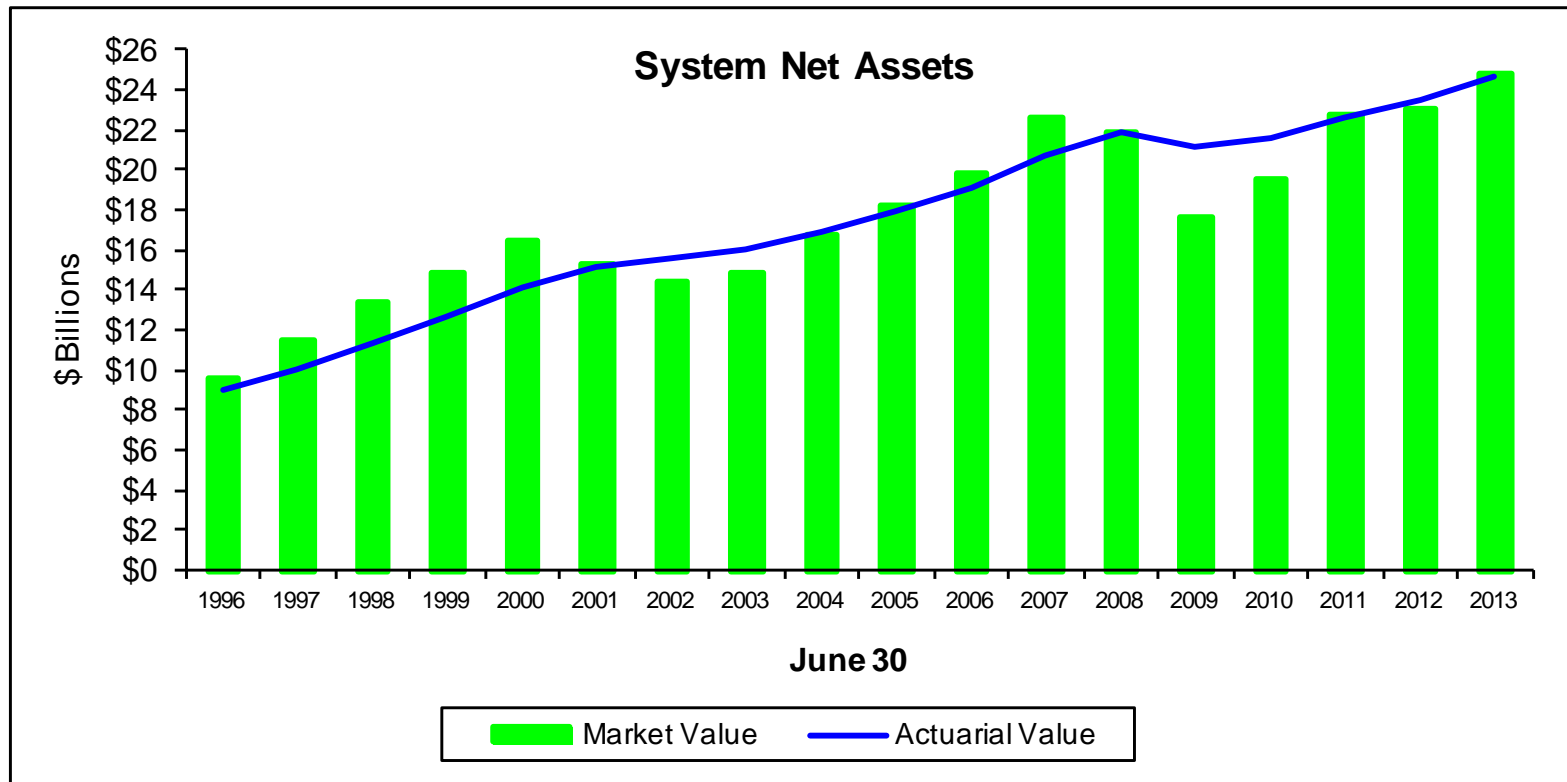
Asset Values (\$M)

	<u>Market</u>	<u>Actuarial</u>
Assets, 6/30/12	\$ 23,025	\$ 23,530
▪ Contributions	1,019	1,019
▪ Benefit Payments	(1,597)	(1,597)
▪ Investment Income	2,310	1,759
Assets, 6/30/13	\$ 24,757	\$ 24,711
Estimated Rate of Return	+10.12%	+7.57%

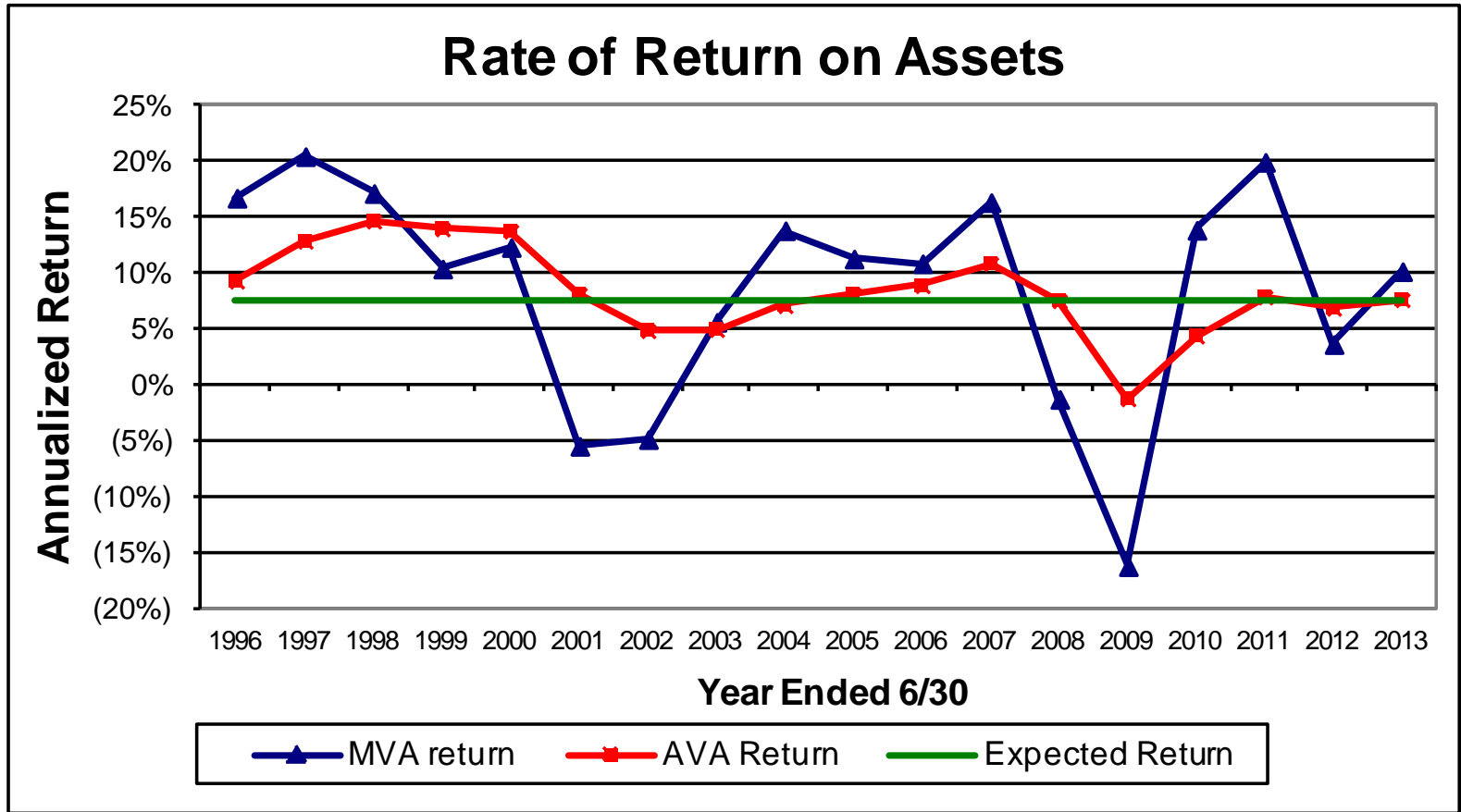
Actuarial Assets

- Asset gain of \$15 M
- Strong return on market value of assets offset the unrecognized loss in 2012 valuation of \$505 million
- Actuarial ÷ Market Value = 100%
- Deferred gain is about \$46 M

Historical Asset Values



Historical Asset Returns



FED Reserve

- Market value 6/30/13: \$122M
- No transfer to FED this year. FED assets exhausted with final payment in 2014
- Expected payments on Jan 31:

2014	\$122M*
2015	0

*Payment is equal to remaining FED Reserve balance.

UAL (\$M) at 6/30/13

	<u>Regular</u>	<u>Sheriffs & Deputies</u>	<u>Protection Occupation</u>	<u>Total</u>
Actuarial Liability	\$28,799	\$533	\$1,166	\$30,498
Actuarial Value of Assets	<u>23,100</u>	<u>483</u>	<u>1,129</u>	24,711
Unfunded Actuarial Liability (UAL)	\$5,699	\$50	\$37	\$5,787
Funded Ratio	80%	91%	97%	81%

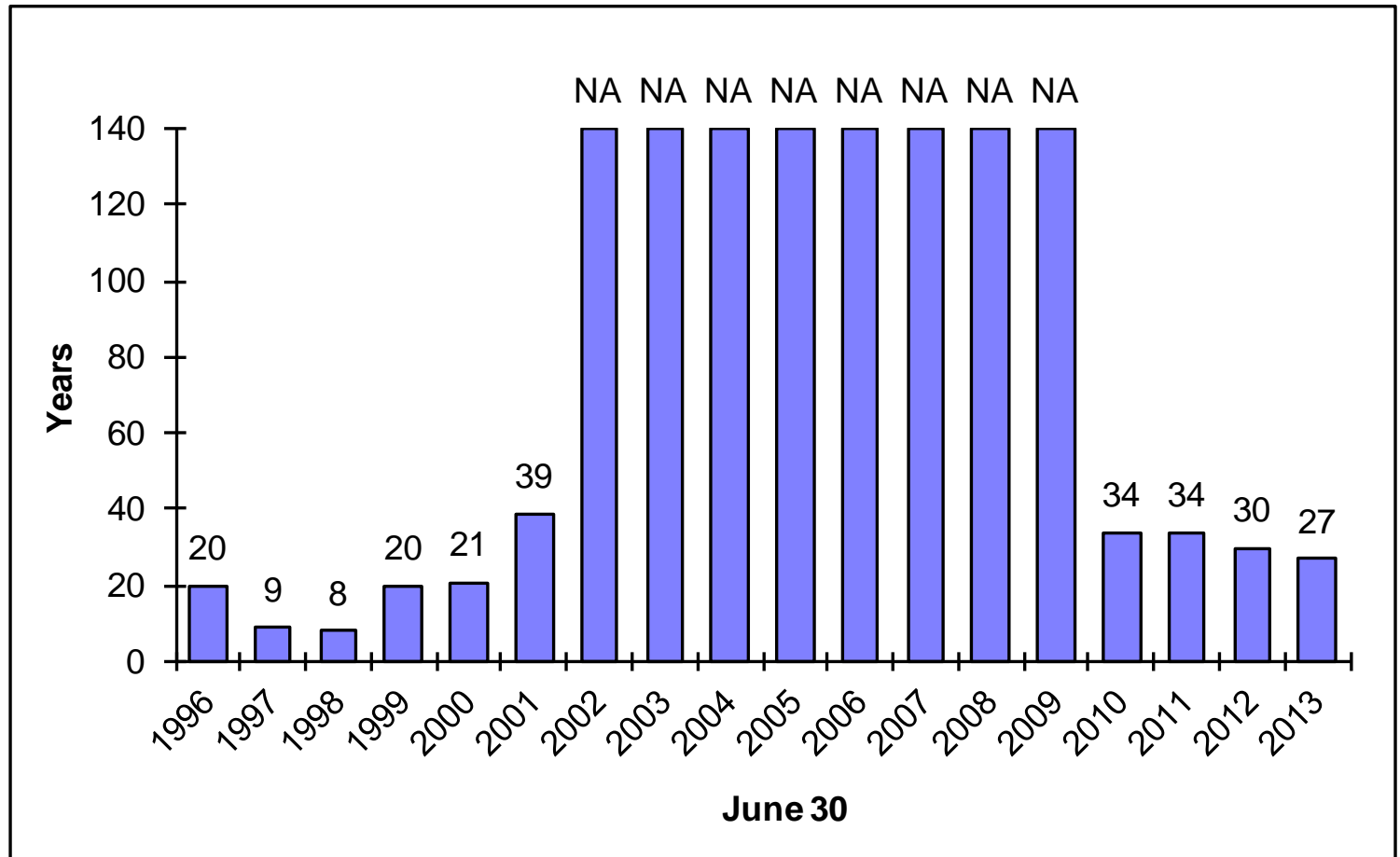
Unfunded Actuarial Liability (UAL \$M)



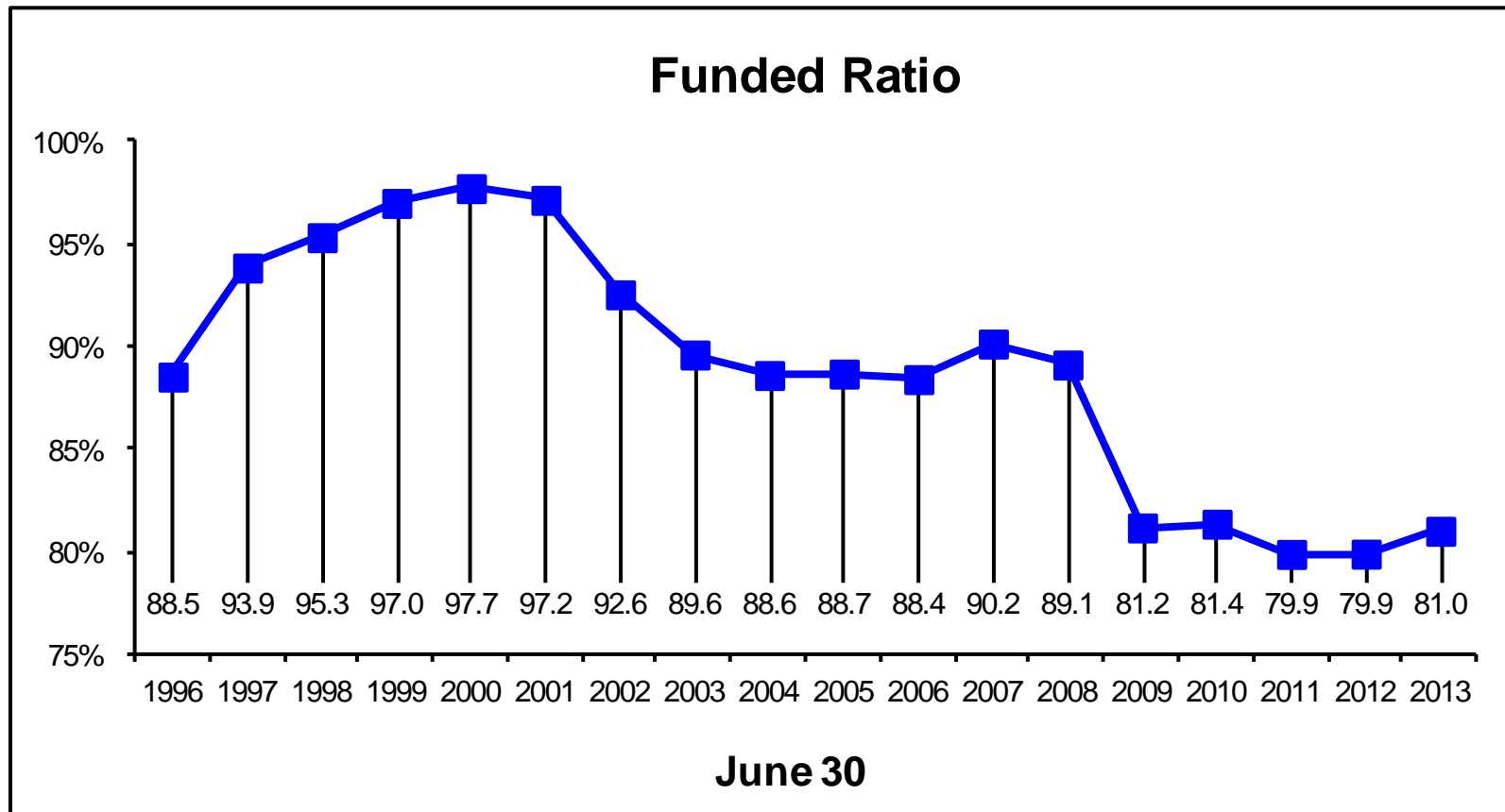
UAL June 30, 2012	\$ 5,916
– Contributions below actuarial rate	21
– Expected increase from amortization	115
– Investment experience	(15)
– Liability experience	(250)*
UAL June 30, 2013	\$5,787

* Largely due to salary increases that were lower than anticipated by the actuarial assumption.

Amortization Period



Historical Results – All Groups



- Components:
 - Normal Cost (ongoing cost for actives)
 - Amortization of UAL
- UAL Amortized over 30 Years
 - All groups have UAL
 - New policy sets all groups to 30 year open in 2013 valuation
 - Moves to 30 year closed with 6/30/2014 valuation

Updated Contribution Rate Policy

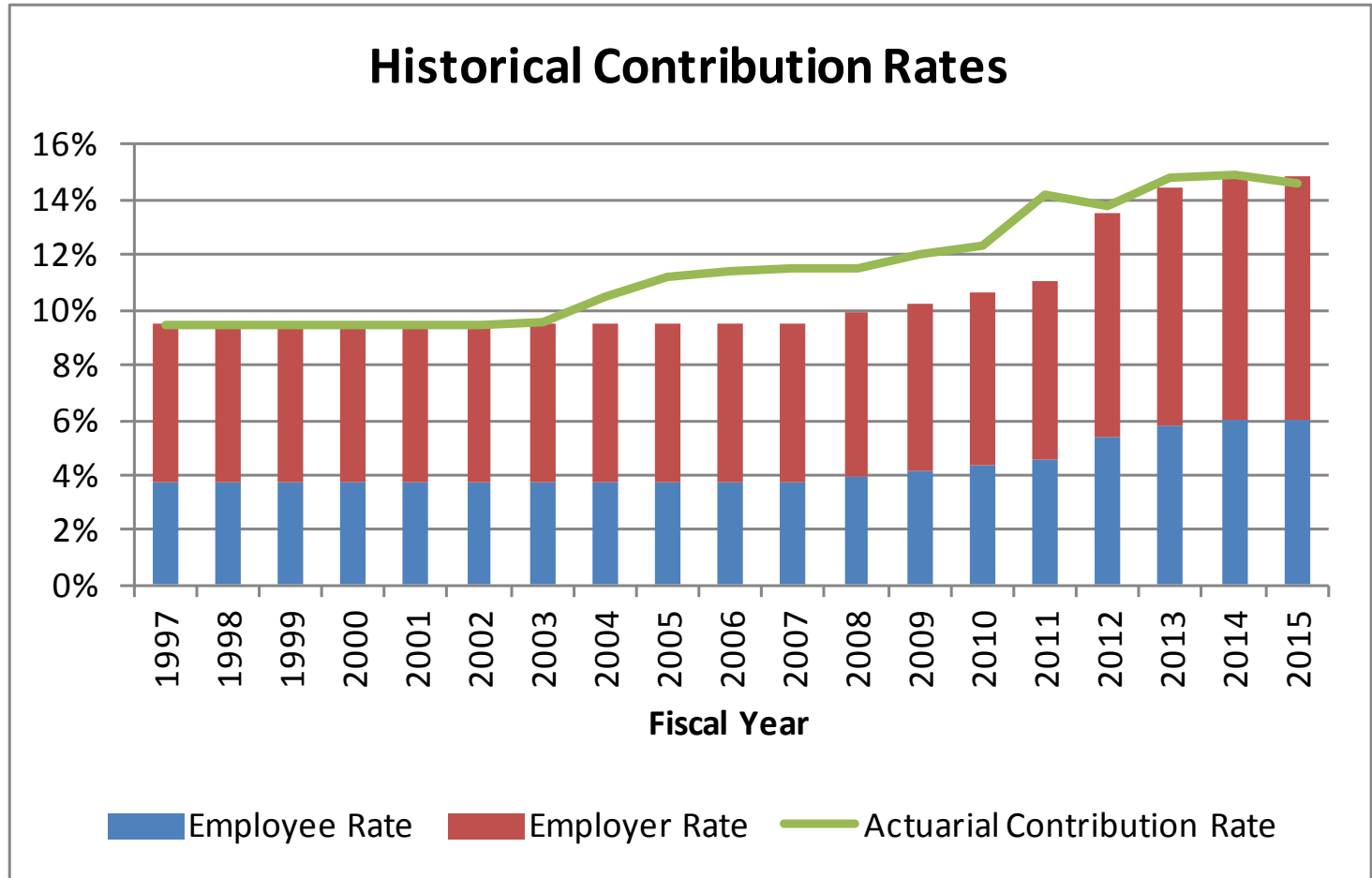


- Provide stability in the contribution rates
- Address the risk of underfunding the benefits
- Increases the probability of reaching full funding sooner
- Delays decreases in the contribution rates until funded ratio is 95% or greater
 - No reduction unless it would be 0.50% or greater
 - Results in more rapid funding of the UAL

Contribution Rate - Regular

	Valuation Date	
	(Contribution Rates for FY15/FY14)	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Normal Cost	10.16%	10.17%
UAL Payment	<u>4.44%</u>	<u>4.71%</u>
Total Actuarial Rate	14.60%	14.88%
Statutory Contribution*	<u>14.88%</u>	<u>14.88%</u>
Shortfall/(Margin)	(0.28%)	0.00%
*Employee Rate	5.95%	5.95%
*Employer Rate	8.93%	8.93%

Regular Membership



Contribution Rate Sheriffs & Deputies



Valuation Date

(Contribution Rates for FY15/FY14)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Normal Cost	16.59%	16.62%
UAL Payment	<u>2.71%</u>	<u>3.14%</u>
Total Actuarial Rate	19.30%	19.76%
Statutory Contribution*	<u>19.76%</u>	<u>19.76%</u>
Shortfall/(Margin)	(0.46%)	0.00%
* Employee Rate	9.88%	9.88%
* Employer Rate	9.88%	9.88%

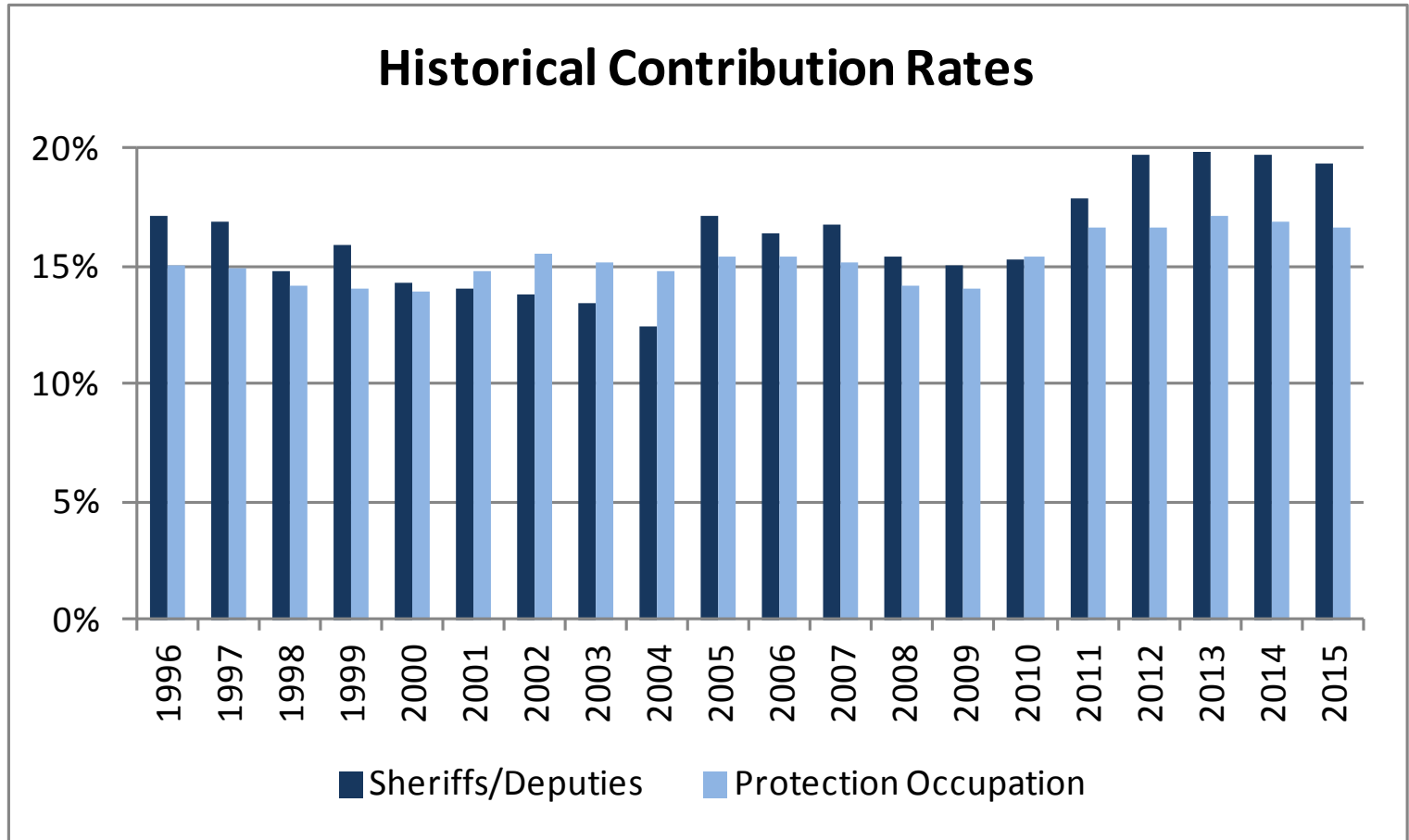
Contribution Rate Protection Occupations

Valuation Date

(Contribution Rates for FY15/FY14)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Normal Cost	16.02%	16.04%
UAL Payment	<u>0.59%</u>	<u>0.86%</u>
Total Actuarial Rate	16.61%	16.90%
Statutory Contribution*	<u>16.90%</u>	<u>16.90%</u>
Shortfall/(Margin)	(0.29%)	0.00%
* Employee Rate	6.76%	6.76%
* Employer Rate	10.14%	10.14%

Sheriffs/Deputies and Protection Occupations



Summary and Comments

- Investment return of 10% offset unrecognized investment loss from 2012
 - Deferred gain of \$46M vs. deferred loss of \$505M last year
- New Contribution Rate Funding Policy
 - All three groups have Required Contribution Rate slightly higher than the Actuarial Contribution Rate for FY 2015
 - Will fund the UAL more rapidly than amortization policy and provide more stability in contribution rates
 - Preliminary estimates are full funding in 27 years instead of 30 years
- Projections indicate positive trend in funded ratio if all assumptions are met

UPDATE ON WORKING AFTER RETIREMENT

Background

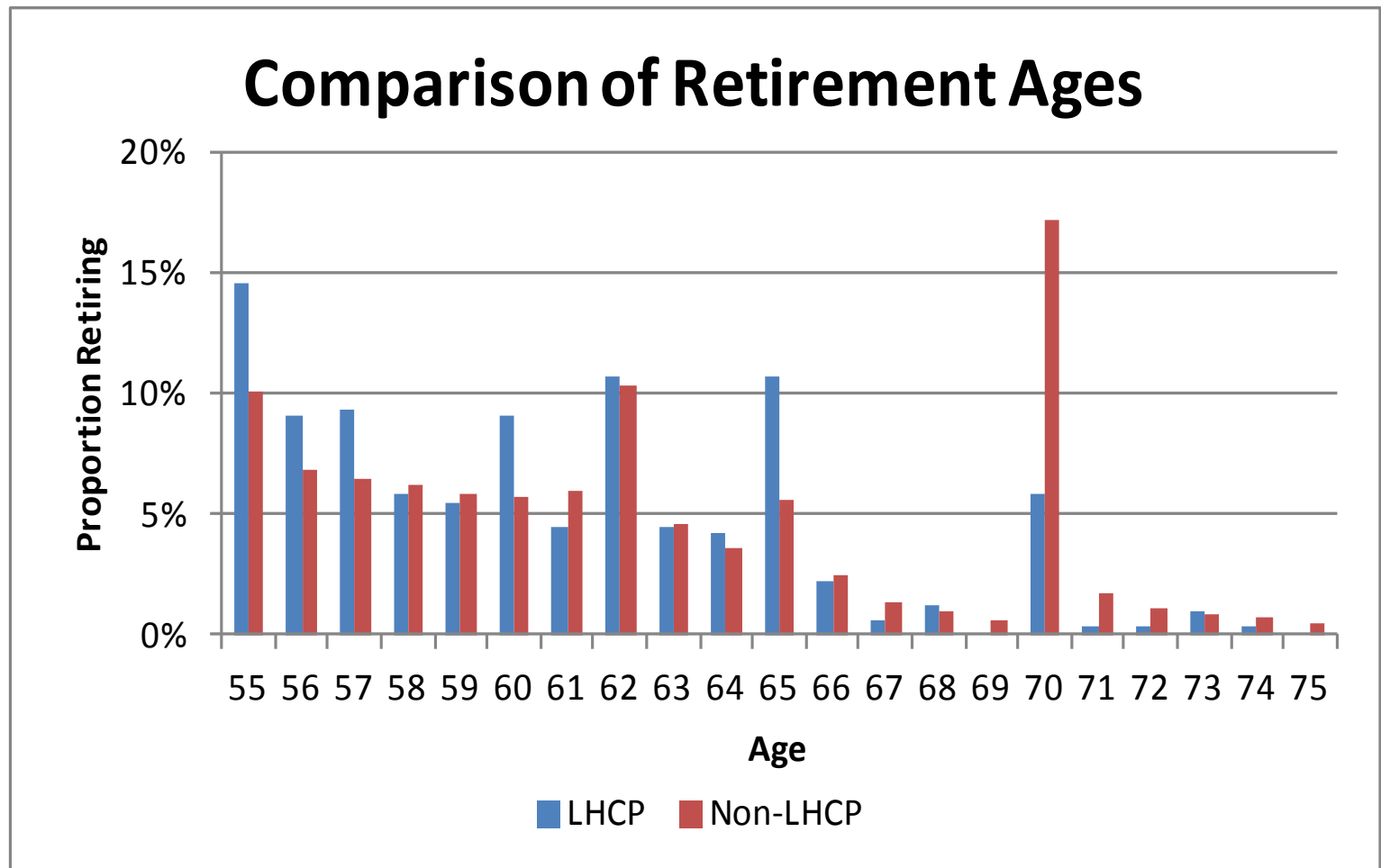
- Previous study completed in November, 2012
- Updated the study using additional data
- Findings were largely the same as last study

Return to Work Group

- About 75% of retirees were rehired by the same employer
- About 90% earn below \$30,000 per year
- More than 50% earn less than \$7,000 per year and 75% earn less than \$14,000
- About 50% work three years or less after reemployment
- Benefits earned in second employment period are relatively small

- Retiring at younger ages
- As a whole, this group is younger than the overall return-to-work group
- Earnings are twice as much as other retired re-employed
- Represent a higher portion of new retirees (24% vs. 16%)

Retirement Ages LHCP vs Others



Cost Impact on IPERS

- Dependent on number of factors
 - Whether members retire earlier than they would absent the return to work provision
 - Which members elect to retire earlier
 - How long retired reemployed members work after returning to covered employment
 - Benefit earned during reemployment
 - Contributions by member and employer made during reemployment period
- Member behavior absent the current provisions is unknown

Cost Impact on IPERS

- Exact cost quantification is difficult
- To extent members retire earlier, there is a cost
- UAL contributions on rehired payroll are lost (estimated at \$5 million per year)
- Rehired retirees have a higher normal cost rate than rest of group, estimated to be 0.06% of pay or about \$4 million for FY2014
- Costs are being shifted from the retired/reemployed group to the rest of the active members and their employers

Proposed Changes to 97B



- **Favorable Experience Dividend (FED)** and the Supplemental Account for Active Members (SAAM) **rescinded**.
- **Service Purchases**
 - Requires **vesting by service**, not age, before a service purchase can be made to ensure the System can best approximate the actuarial cost of the purchase.
 - Service purchase must be made within **six months** of retirement.
- **Refund Procedures**
 - Requires **spousal acknowledgement** of refund application and conforms practice to what is also required of a retirement option selection.

IPERS Investment Board



Presented by
Dennis Young
Chair

- Retired executive vice president and chief financial officer of Wells Fargo Financial
- Served on the Investment Board since 2011
 - First term as chair

Key Indicators



IPERS is a strong pension system

- Funded ratio of 81 %
- UAL is amortized at 27 years

Positive gains from investments

- FY2013 investment performance of 10.12%
- Beats the 7.5% actuarial assumed investment return

Fiduciary Duty of the Board



The Investment Board is a trustee of the Trust Fund

A fiduciary with a legal duty to act in accordance with all of the following:

- Solely in the interest of the participants and beneficiaries
- For the exclusive purpose of providing benefits to participants and beneficiaries and paying reasonable expenses

IPERS Investment Board



Board Structure

- Seven voting members
 - Six members appointed by the Governor and confirmed by the Senate
 - Three public members with investment and financial experience
 - David Creighton, Lisa Stange, Dennis Young
 - Three IPERS members
 - Phyllis Peterson, Marlene Sprouse, Wayne Walter
 - Seventh voting member is State Treasurer Fitzgerald (appointed by statute)
- Four non-voting members
 - Representatives Mascher and Pettengill
 - Senators Whitver and McCoy

IPERS Investment Board

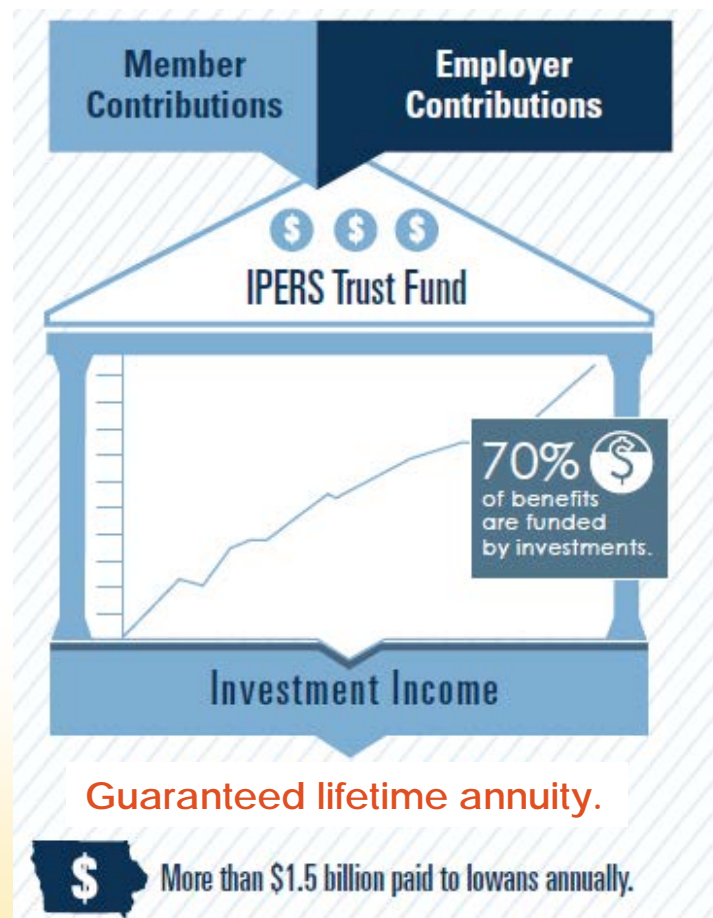


Roles & Responsibilities

- Establish the investment policy and risk tolerance of the investment program
- Hire investment managers and consultants
- Review investment performance
- Select the actuary and adopt the mortality tables, actuarial methods, and assumptions to be used by the actuary for the annual valuation of assets
- Review investment management expenses and IPERS' administrative budget

Prefund – Not Pay-as-you-go

Contributions + Investments = Benefits + Expenses



Trust Fund Value



The IPERS Trust Fund market value
as of 6/30/13

\$24.8 billion

up from \$23.2 billion
as of 6/30/12

Investment Performance

For periods ended June 30

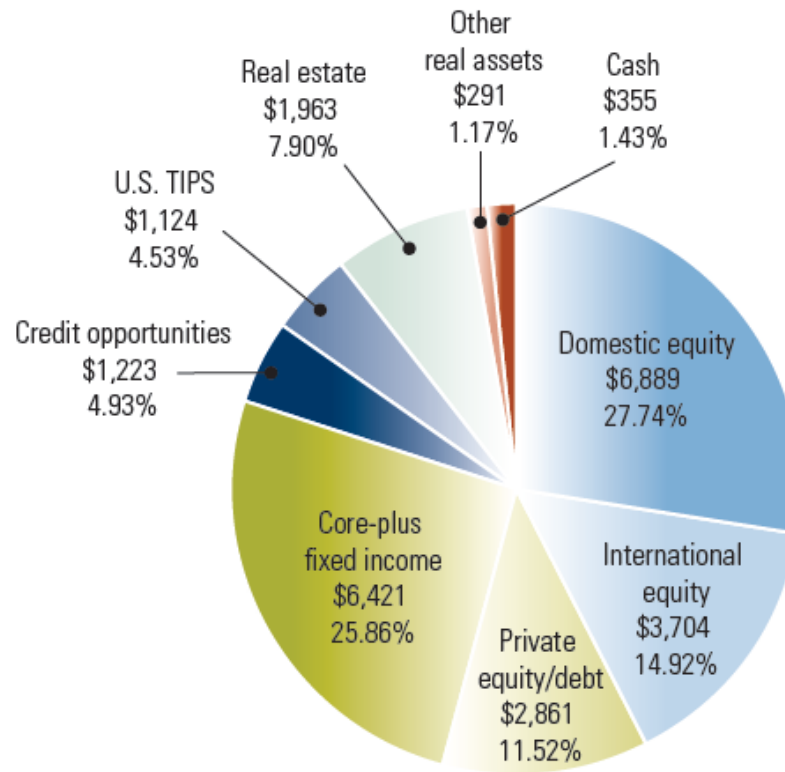
	FY2013	10-Year	20-Year	30-Year
IPERS Portfolio[*]	10.12%	7.78%	8.47%	9.57%
Policy Benchmark[†]	10.64%	8.07%	8.02%	9.15%
Large Public Fund Median[‡]	12.61%	7.23%	7.98%	9.42%

^{*}Net of fees.

[†]A benchmark composed of market indices with weightings reflective of IPERS' asset allocation targets.

[‡] Trust Universe Comparison Service (TUCS) Public Funds with Total Market Value Greater than \$1 billion.

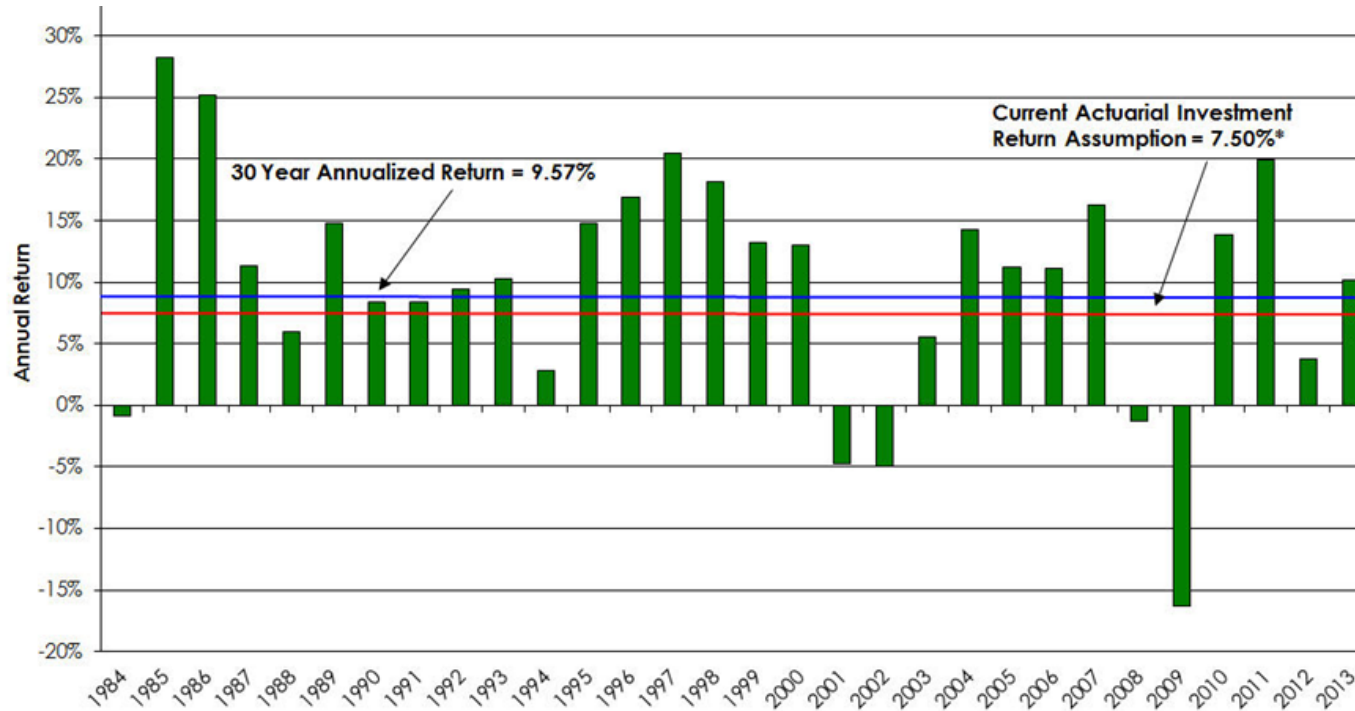
Investments by Asset Class



(Fair Values in Millions)

As of June 30, 2013

Investment Returns



Annualized Returns*

1-Year Return	10.12%
3-Year Return	11.06%
5-Year Return	5.48%
10-Year Return	7.78%
15-Year Return	6.55%
20-Year Return	8.47%
25-Year Return	8.82%
30-Year Return	9.57%

For periods ended June 30, 2013

*Actuarial investment return assumption:

1953 – 1993: 6.50%

1994 – 1995: 6.75%

1996 – present: 7.50%

Benefits Advisory Committee

Presented by



Len Cockman
Chair



Bradley Hudson
Vice Chair

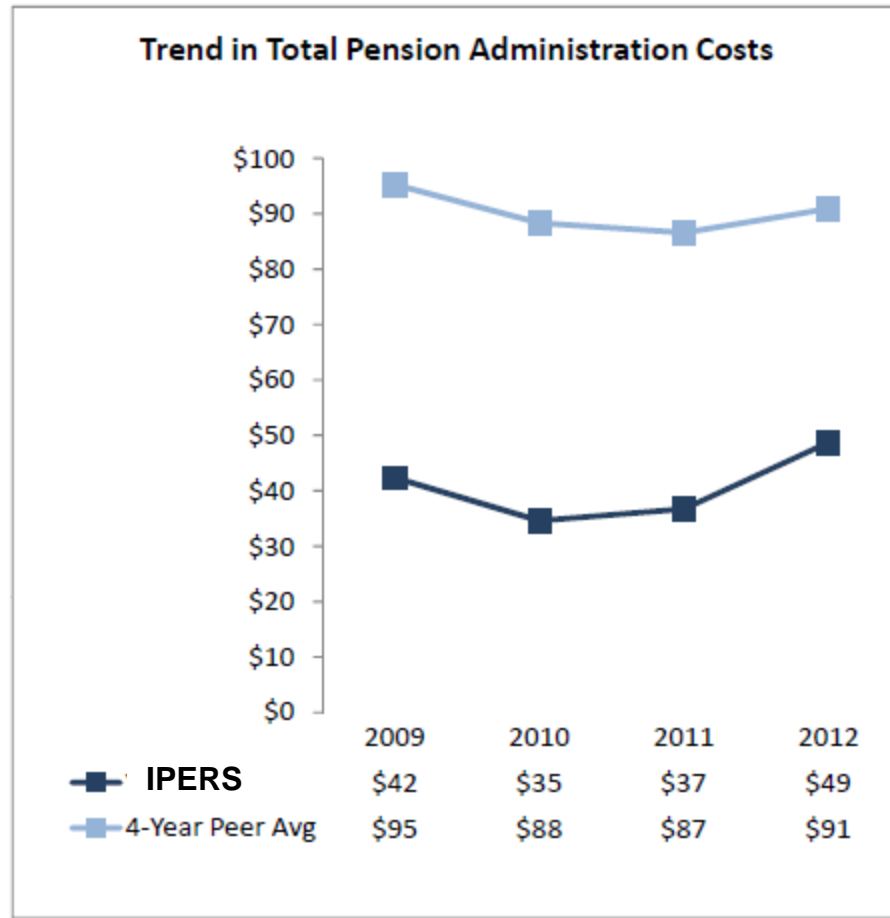
Benefits Advisory Board



Roles & Responsibilities

- #1 role is to consider and make recommendations to IPERS and the General Assembly on the administration of IPERS benefits
- Comprised of representatives from constituent groups, including employers, active members and retired members
- Nine voting members (seven elected by the Committee)
 - Also includes, by statute, the director of the Department of Administrative Services, and a member of the public
- Voting members serve 3-year terms

Independent Evaluation



IPERS' total pension administration cost of **\$49** per active member and annuitant has remained significantly below its peer group cost of **\$91**.

Source: CEM Benchmarking, Inc., February 2013

IPERS' Benefit Package



- More moderate than many
- Reform started 4 years ago
- Contribution rates tied to actuarial rate
 - Investment Board adopted contribution rate funding policy
- Benefit reductions taken by current, active members
 - No separate tier for new hires

BAC's Recommendations



- The BAC supports the necessary updates to 97B described earlier.
- The BAC supports the sunset provision of bona fide retirement exclusion for licensed health care professionals.

Our Mission

A stylized, light blue oak leaf graphic is positioned in the top right corner of the slide, partially overlapping the blue header bar.

Administer a cost-efficient retirement plan that provides lifetime pension payments to public employees and serves to attract and retain a quality workforce.

Contact Us



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